

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 93-737-W/S - ORDER NO. 94-644 ✓  
JULY 11, 1994

IN RE: Application of Heater of Seabrook,       )  
      Inc. for Approval of New Rates and       ) ORDER DENYING  
      Charges for Water and Sewer            ) INCREASE IN  
      Customers in the Seabrook Service       ) RATES AND CHARGES  
      Area in South Carolina.                )

This matter comes before the Public Service Commission of South Carolina (the Commission) by way of an Application of Heater of Seabrook, Inc. (the Company or the utility) for approval of a new schedule of rates and charges for its water and sewer customers on Seabrook Island in Charleston County, South Carolina. The Company's January 13, 1994 Application was filed pursuant to S.C. Code Ann. §58-5-240 (1976), as amended, and R.103-821 of the Commission's Rules of Practice and Procedure.

By letter dated February 11, 1994, the Commission's Executive Director instructed the Company to publish a prepared Notice of Filing, one time, in newspapers of general circulation in the area affected by the Company's Application. The Notice of Filing indicated the nature of the Company's Application and advised all interested parties desiring participation in the scheduled proceeding of the manner and time in which to file the appropriate pleadings. The Company was likewise required to directly notify all customers affected by the proposed rates and charges.

Petitions to Intervene were filed on behalf of Steven W. Hamm, the

Consumer Advocate for the State of South Carolina (the Consumer Advocate), the Town of Seabrook Island (the Town), and R. Sid Crim.

The Commission Staff made on-site investigations of the Company's facilities, audited the Company's books and records, and gathered other detailed information concerning the Company's operations. The other parties likewise conducted their discovery in the rate filing of Heater of Seabrook, Inc.

A public hearing relative to the matters asserted in the Company's Application was held on June 8, 1994, at the Hearing Room of the Commission at 111 Doctor's Circle, Columbia, South Carolina. Pursuant to S.C. Code Ann. §58-3-95 (Supp. 1993), a panel of three Commissioners composed of Commissioners Butler, Bowers, and Arthur was designated to hear and rule on this matter. Darra W. Cothran, Esquire, represented the Company; Carl F. McIntosh, Esquire, and Elliott F. Elam, Esquire, represented the Consumer Advocate; Michael A. Molony, Esquire, and Stephen Brown, Esquire, represented the Town; and Gayle B. Nichols, Staff Counsel, represented the Commission Staff. Mr. Crim did not appear at the hearing.

The Company presented the testimony of William E. Grantmyre, President of the Company, Freda Hilburn, Director of Regulatory Accounting, Jerry W. Tweed, Director of Regulatory Affairs, and David Parcell, Vice President/Senior Economist of Technical Associates, Inc. to explain the services being provided by the Company, the financial statements and accounting adjustments submitted and the reasons for the requested rate increase. The Consumer Advocate presented the testimony of Philip E. Miller of J.W. Wilson & Associates, Inc., who analyzed the Company's

Application and revenue requirements. The Town of Seabrook Island presented the testimony of Mayor Andrew W. Ballentine, Joe W. Hall, Robert E. Johnson, and Ike M. Smith who testified as to the concerns of the customers regarding the proposed increase. The Commission Staff presented the testimony of Robert W. Burgess, Public Utilities Rate Analyst, and Vivian B. Dowdy, Public Utilities Accountant. At conclusion of the hearing, the Consumer Advocate and the Town filed briefs.

#### FINDINGS OF FACT

1. The Company is a wholly-owned subsidiary of Heater Utilities, Inc.<sup>1</sup> The Company is a water and sewer utility operating in the State of South Carolina and is subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. §58-5-10 (1976) et seq. Application; Grantmyre testimony.

2. The Company provides water service to 1,662 customers and sewer service to 1,558 customers on Seabrook Island, Charleston, South Carolina. Hearing Exhibit 6.

3. The Company's present rates and charges were approved by Order No. 92-1028, dated December 12, 1992, in Docket No. 91-627-W/S and Order No. 93-1124, dated December 9, 1993 in Docket No. 93-408-W/S. Hearing Exhibit 7.

4. At present, the Company charges a basic facility charge of \$10.50 per month for water with meters less than one inch<sup>2</sup> and a

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1. Heater Utilities is wholly-owned by the Topeka Group, Inc. The Topeka Group, Inc. is a wholly-owned subsidiary of Minnesota Power and Light Company.

2. This charge increases as the meter size increases to one inch or greater.

commodity charge of \$2.50 per 1,000 gallons. For sewer service, the Company charges a residential monthly charge of \$25.00. Its commercial sewer rate is \$25.00 for meters less than one inch. The monthly sewer rate increases as the meter size increases. The Company also charges other fees which the Commission will not recite since the Company is not seeking an increase in those charges.

5. The Company proposes to increase its basic facility charge to \$11.75 per month for meters less than one inch (most residential units have a three-quarter or five-eighths inch meter) and to increase the monthly charges for larger meter sizes as well. The Company proposes to raise its commodity charge to \$2.79 per 1,000 gallons. The overall water increase amounts to 10.40%. Application; Hearing Exhibit 6.

6. The Company proposes to increase its residential sewer rate to \$34.10 per month. The Company proposes to increase its commercial sewer rate to a monthly charge based on meter size. The Company proposes a \$34.10 monthly charge for meters of less than one inch, \$82.00 per month for meters of one inch, \$164.00 per month for 1.5 inch meters, \$382.00 per month for 2.0 inch meters, \$682.00 per month for 3 inch meters, \$1023.00 per month for 4 inch meters, and \$1364.00 per month for 6 inch meters. This amounts to an overall sewer increase of 34.02%. Application; Hearing Exhibit 6.

7. The Company asserts this requested rate increase is required because it has experienced substantial increases in purchased water costs, property tax expense, wastewater treatment

chemical expense, insurance premiums, and depreciation and interest expense resulting from plant upgrades and modifications. The Company asserts that the rate increase is necessary in order for it to earn a fair rate of return on its investment, which is necessary to maintain the financial integrity of the Company. Application, p. 2; Grantmyre testimony.

On cross-examination, witness Grantmyre admitted that the Company's purchased water costs were less in 1993 than in 1990 and 1991. He testified that the Company's property taxes decreased from \$104,276 in 1992 to \$83,621 in 1993. Further, Mr. Grantmyre testified that the Company's wastewater chemical treatment expenses increased only \$6,000.00 from 1992 to 1993 and that its insurance premiums only increased \$3,000.00 over the same period of time. Finally, Mr. Grantmyre testified that the Company spent less on plant upgrades and additions in 1993 than it had in 1990 and 1991 and that, of the \$659,610 in 1993 plant upgrades and additions, \$201,394 was contributed by the Company's ratepayers.

8. The Company proposes that the appropriate test period in which to consider its requested increase is the twelve-month period ending September 30, 1993. Application; Hilburn testimony. The Commission Staff concurred in using the same test year for its accounting and pro forma adjustments. Dowdy testimony.

9. Under its presently approved rates, the Company states its operating margin, after interest and after accounting and pro forma adjustments, is 4.76% for water and (7.83%) for its sewer operations. Grantmyre testimony; Application, Exhibit S. The Company seeks an increase in its rates and charges for water and

sewer service which would result in operating margins of 10.27% for water operations and 12.60% for sewer operations. Application, Exhibit S.

10. Under its presently approved rates, the Company states that its combined operating revenues for the test year, after accounting and pro forma adjustments, are \$1,220,633. The Company seeks an increase in its rates and charges for water and sewer service in a manner which would increase its operating revenues by \$263,427.00. Application of Company, Exhibit C. Under the Company's presently approved rates, the Commission Staff found that the Company's operating revenues for the test year were \$1,301,249 after accounting and pro forma adjustments. The Commission Staff calculated the proposed increase to be \$268,911. Hearing Exhibit 7.

The difference between the Company's and the Staff's revenue figures is due, in most part,<sup>3</sup> to the different accounting treatments of availability fees. Although clearly collected and used by the Company (Grantmyre testimony), the Company did not include availability fees as operating revenues but, instead, recognized the fees as contributions in aid of construction and removed them from rate base and depreciable property in keeping with Commission Order No. 92-1028. Tweed testimony. The Commission Staff, however, included \$64,480.00 in availability fees as operating revenues. The Commission Staff's adjustment was based

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3. An additional difference lies in the Company's and Commission Staff's billing analysis. The Company's accounting witness testified the Company did not object to the Staff's adjustment for billing analysis.

on a directive of this Commission issued on December 7, 1992.

Consumer Advocate witness Miller testified that the Commission should recognize the availability fees as revenue to the Company. He explained that while ratepayers do receive some benefits such as reduced depreciation and interest expense when availability fees are treated as contributions in aid of construction, ratepayers receive a greater benefit when availability fees are recognized as revenue. Further, Mr. Miller testified that treating availability fees as a reduction to rate base does not eliminate the expenses associated with availability fees such as billing and collection, paying the business license fee associated with the revenue stream from availability fees, and actually maintaining the distribution lines.

11. The Company asserts that under its presently approved rates, its total operating expenses for the test year, after accounting and pro forma adjustments, are \$1,017,523.00. Application, Exhibit C. The Commission Staff concluded that the Company's operating expenses for the test year, after accounting and pro forma adjustments, are \$1,052,026.00. Hearing Exhibit 7. At the hearing, the Company's accounting witness testified the utility had no objections to the Commission Staff's expense adjustments.

12. The Company's records reflect that, after accounting and pro forma adjustments to its operating revenues and expenses, its total income for return is (\$7,295). Application, Exhibit C. The Staff calculated the Company's total income for return, after accounting and pro forma adjustments, to be \$252,374. Hearing

Exhibit 7.

13. The Commission Staff determined that the Company's current operating margin is 8.93%. Under the proposed rates and assuming adoption of the its adjustments, the Commission Staff calculated the operating margin, after interest, to be 17.88%.  
Hearing Exhibit No. 7.

CONCLUSIONS OF LAW

1. The Company is a water and sewer utility providing water and sewer service in its service area in Charleston County, South Carolina. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. §58-5-10 et seq. (1976).

2. A fundamental principle of the ratemaking process is the establishment of an historical test year with the basis for calculating a utility's rate base and, consequently, the validity of the utility's requested rate increase. While the Commission considers a utility's proposed rate increase based upon occurrences within the test year, the Commission will also consider adjustments for any known and measurable out-of-test year changes in expenses, revenues, and investments, and will also consider adjustments for any unusual situations which occurred in the test year. See, Parker v. South Carolina Public Service Commission, 280 S.C. 310, 313 S.E.2d 290 (1984), citing City of Pittsburgh v. Pennsylvania Public Utility Commission, 187 P.A. Super. 341, 144 A.2d 648 (1958); Southern Bell v. The Public Service Commission, 270 S.C. 590, 244 S.E.2d 278 (1978).

3. The Company chose the test year ending September 30,

1993. The Commission Staff used the same test year in calculating its adjustments. The Commission is of the opinion that the test year ending September 30, 1993, is appropriate based on the information available to the Commission and is therefore adopted.

4. The Commission adopts the Commission Staff's and the Consumer Advocate's recommendation to treat availability fees as operating revenues. Although in prior decisions the Commission has not treated availability fees as revenues, the Commission now finds that the better policy is to recognize availability fees as revenues when such fees are in fact available for the utility's use such as in this current case or when the availability fees benefit the utility.

26 S.C. Regs. 103-702.13 (Supp. 1993) states as follows:

[t]he term 'rate' when used in these rules and regulations means and includes every compensation, charge, toll, rental, classification, or availability fee, or any of them, including tap fees, or other non-recurring charges demanded, observed, charged or collected by any utility for any water service offered by it to the public.... Emphasis added.

Similarly, 26 S.C. Regs 103-502.10 (Supp. 1993) states as follows:

[t]he term rate, when used in these rules and regulations, means and includes every compensation, charge, toll, rental classification, or availability fee, or any of them, including tap fee, or other non-recurring charges demanded observed, charged, or collected by any utility for any service offered by it to the public, and any rules, regulations, practices, or contracts affecting any such compensation, charge, toll, rental, classification, or availability fee....

The Commission concludes that its own regulations clearly recognize that availability fees are subject to this Commission's jurisdiction. Further, the Commission finds Mr. Miller's testimony recommending the treatment of availability fees as revenues highly

persuasive. As stated by Mr. Miller, availability fees provide the most benefit to ratepayers when they are recognized as operating revenues and their associated costs are recognized as operating expenses. For these reasons, the Commission adopts the Consumer Advocate's and the Commission Staff's adjustments to the Company's operating revenues and expenses to reflect availability fees as revenues.

5. In light of the fact that the Company conceded it had no objections to the Commission Staff's proposed expense adjustments, the Commission concludes that the Staff's adjustments to the Company's operating expenses are appropriate. Accordingly, the Commission finds that the operating expenses for the Company for the test year under the present rates and after accounting and pro forma adjustments are \$1,056,293.<sup>4</sup>

6. The Company's appropriate total income for return for the test year, after accounting and pro forma adjustments, is \$248,107. Based upon the above determinations concerning the accounting and pro forma adjustments to the Company's revenues and expenses, the Commission concludes that the Company's total income for return is as follows:

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4. The difference between the operating expenses as stated in the Commission Staff's report and as adopted by the Commission is the result of actual rate case expenses and tax effects which were presented at the hearing.

TABLE A  
TOTAL INCOME FOR RETURN

|                         |                  |
|-------------------------|------------------|
| Operating Revenues      | \$1,301,249      |
| Operating Expenses      | <u>1,056,293</u> |
| Net Operating Income    | 244,956          |
| Customer Growth         | <u>3,151</u>     |
| Total Income for Return | 248,107          |

7. Under the guidelines established in the decisions of Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net revenues. As the United States Supreme Court noted in Hope, a utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility and . . . that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." Bluefield, supra, at 692-693.

8. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of the rates of a public utility. For a water and sewer utility whose rate base has been substantially reduced by customer donations, tap

fees, contributions in aid of construction, and book value in excess of investment, the Commission may decide to use the "operating ratio" and/or "operating margin" method for determining just and reasonable rates. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the net operating income for return by the total operating revenues of the utility. This method was recognized as an acceptable guide for ratemaking purposes in Patton v. South Carolina Public Service Commission, 280 S.C. 288, 312 S.E.2d 257 (1984). The Commission concludes that it will use the operating margin methodology in this case.

Based on the Company's gross revenues for the test year, after accounting and pro forma adjustments under the presently approved schedules, and the Company's operating expenses for the test year, after accounting and pro forma adjustments and customer growth, the Company's present operating margin is as follows:

TABLE B  
OPERATING MARGIN

|                                   |                  |
|-----------------------------------|------------------|
| Operating Revenues                | \$1,301,249      |
| Operating Expenses                | <u>1,056,293</u> |
| Net Operating Income              | 244,956          |
| Customer Growth                   | <u>3,151</u>     |
| Total Income for Return           | <u>248,107</u>   |
| Operating Margin (After Interest) | 8.60%            |

9. The Commission is mindful of the standards delineated in the Bluefield, supra, and Hope, supra, decisions and of the need to balance the respective interests of the Company and of the

consumer. Employing the test year proposed by the Company and applying Staff's expense adjustments, agreed to by the utility, the Company is currently earning an operating margin of 8.60%. The Commission finds that an operating margin of 8.60% is fair and reasonable. It allows the Company to recover its expenses, enables the Company to raise funds necessary for the discharge of its duties, and provides the Company's shareholders with an opportunity to earn a return on their investment.

Further, the Commission does not find that the Company justified its need for a rate increase. The Commission notes that the Company's reasons given in support of the current rate case are almost identical to the reasons provided in the Company's last rate case. In Docket No. 91-627-W/S, Company witness Grantmyre testified "Heater of Seabrook has experienced substantial increases in the operating expenses of purchased water, property taxes, testing fees for the wastewater treatment plant, insurance premiums and depreciation expense resulting from plant upgrades and modifications." Grantmyre, pre-filed testimony, pp. 3-4. In the present case, witness Grantmyre asserted "Heater of Seabrook has experienced substantial increases in the operating expenses of purchased water, property taxes, wastewater treatment chemical expense, insurance premiums, depreciation and interest expense resulting from plant upgrades and modifications." Grantmyre, pre-filed testimony, pp. 3-4.

Contrary to the Company's assertion, the Commission does not find that the utility has experienced such an increase in its expenses as to necessitate a corresponding rate increase. Some of

the noted increases from the Company's 1992 levels were minimal; at least one expense decreased by more than \$20,000 from its 1992 level.<sup>5</sup> Moreover, although the Company's investment in plant upgrades and additions significantly increased from 1992 to 1993, one-third of the expense was funded by ratepayer contributions. Further, the amount spent by the utility in 1993 for plant upgrades and additions was much less than those amounts spent by the Company in 1990 and 1991 for plant upgrades and additions.

Finally, the Commission recognizes that the Company and the Town have discussed the Town acquiring the utility's system. The Commission encourages the utility and the Town to continue in their negotiations.

10. Based upon the above considerations and reasoning, it is ordered that the rates and charges approved by prior Order of the Commission and as shown on Appendix A to this Order shall continue. This rate schedule is deemed to be filed with the Commission pursuant to S.C. Code Ann. §58-5-240 (1976).

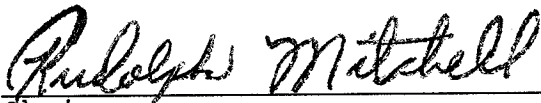
11. It is further ordered that the Company maintain its books and records for water and sewer operations in accordance with the NARUC Uniform System of Accounts for Class A and B water and sewer utilities, as adopted by this Commission.

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5. In 1993, the Company's wastewater chemical treatment expense increased approximately \$6,000 and its insurance premiums increased approximately \$3,000 over their 1992 levels. The Company's 1993 property taxes were approximately \$20,000 less than its 1992 taxes.

12. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
Chairman

ATTEST:

  
Executive Director

(SEAL)

## APPENDIX A

HEATER OF SEABROOK, INC.  
P.O. Drawer 4889  
Cary, N.C. 27519  
1-800-537-4865

FILED PURSUANT TO DOCKET NO. 93-737-W/S - ORDER NO. 94-644  
EFFECTIVE DATE: JULY 11, 1994

### SCHEDULE OF RATES AND CHARGES:

#### WATER

#### 1. MONTHLY CHARGE -

##### A. Base Facility Charge for Zero Consumption -

| <u>Meter Size</u> | <u>Base Monthly Charge</u> |
|-------------------|----------------------------|
| <1.0"             | \$ 10.50                   |
| 1.0"              | \$ 40.00                   |
| 1.5"              | \$ 80.00                   |
| 2.0"              | \$120.00                   |
| 3.0"              | \$240.00                   |
| 4.0"              | \$450.00                   |
| 6.0"              | \$750.00                   |

##### B. Commodity Charge - \$2.50 per 1,000 gallons

When, because of the method of water line installation utilized by the developer or owner, it is impractical to meter each unit separately, service will be provided through a single meter and consumption of all units served through such meter will be averaged; a bill will be calculated based on that average plus the addition of the basic facility charge of \$10.50 per unit and the result multiplied by the number of units served by a single meter.

#### 2. GOLF COURSE IRRIGATION -

Golf course irrigation using untreated deep-well water subject to availability - \$.35 per 1,000 gallons

#### 3. FIRE HYDRANT -

One hundred dollars (\$100.00) per hydrant per year for water service payable in advance. Any water used should be metered and the commodity charge in section one (1) above will apply to such usage.

4. NON RECURRING CHARGES -

- A. Water service connection per  
single-family equivalent \* \$200.00
- B. Plant impact fee per single-  
family equivalent \$300.00
- C. The nonrecurring charges listed above are minimum  
charges and apply even if the equivalency rating is  
less than one (1), then the proper charge may be  
obtained by multiplying the equivalency rating by the  
appropriate fee. These charges apply and are due at  
the time new service is applied for and/or initial  
connection to the water system is requested.

\* Unless prohibited by contract approved by the South  
Carolina Public Service Commission.

5. RECONNECTIONS AND CONNECTIONS -

- A. Water reconnection fee \$ 40.00
- Customers who ask to be reconnected within nine  
months of disconnection will be charged the monthly  
base facility charge for the service period they were  
disconnected.
- B. Customer account charge \$ 25.00
- One time fee to be charged to each new account to  
defray cost of initiating service.

6. BILLING CYCLE -

All meters will be read and bills rendered on monthly basis  
in arrears, unless otherwise provided.

SEWER

1. MONTHLY CHARGES -

- A. Residential - monthly charge per single family house, condominium, villa or apartment unit \$ 25.00
- B. Commercial - monthly charge based upon meter size:

| <u>Meter Size</u> | <u>Base Monthly Charge</u> |
|-------------------|----------------------------|
| <1.0"             | \$ 25.00                   |
| 1.0"              | \$ 60.00                   |
| 1.5"              | \$ 120.00                  |
| 2.0"              | \$ 280.00                  |
| 3.0"              | \$ 500.00                  |
| 4.0"              | \$ 750.00                  |
| 6.0"              | \$1000.00                  |

Commercial customers are those not included in the residential category above and include but not limited to hotels, stores, restaurants, offices, etc.

2. NONRECURRING CHARGES -

- A. Sewer service connection charge per single-family equivalent \* \$200.00
- B. Plant impact fee per single-family equivalent \$300.00
- C. The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating is less than one. If the equivalency is greater than one(1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for and/or initial connection to the sewer system is requested.

\* Except as otherwise prohibited by contract approved by the South Carolina Public Service Commission.

3. NOTIFICATION, CONNECTION AND RECONNECTION CHARGES -

- A. Notification Fee: A fee of \$8.00 shall be charged each customer to whom the Company mails the notice as required by Commission Rule R. 103-535.1 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating that cost.
- B. Customer Account Charge: One-time fee charged to each new account to defray costs of initiating service: \$17.25. If customer also receives water service, this charge will be waived.
- C. Reconnection Charge: \$250.00 pursuant to Commission Rule R. 103-532.4. Customers who ask to be reconnected within nine months of disconnections will be charged the monthly base charge for the service period they were disconnected.

4. BILLING CYCLE -

Bills will be rendered monthly in arrears.

GENERAL PROVISIONS FOR BOTH WATER AND SEWER

1. SINGLE FAMILY EQUIVALENT UNIT FOR CALCULATION OF NONRECURRING CHARGES -

- A. Water - A single-family equivalent unit is based upon a standard meter size of 5/8 inches and flows therefor.

Larger meter sizes increase the equivalency rating as follows:

| <u>Meter Size</u> | <u>Ratio Equivalent</u> |
|-------------------|-------------------------|
| 5/8"              | 1.0                     |
| 3/4"              | 1.0                     |
| 1"                | 2.5                     |
| 1 1/2"            | 5.0                     |
| 2"                | 8.0                     |
| 3"                | 16.0                    |
| 4"                | 25.0                    |

These equivalency ratings are to be used in calculating the water service connection and plant impact fee charges.

- B. Sewer - A single-family equivalent unit is based upon a publication of South Carolina Pollution Control Authority entitled "Guideline for Unit Contributory Loading to Wastewater Treatment Facilities" ("Guidelines") wherein suggested design of wastewater treatment plants are based upon the design assumption that a single-family unit will discharge 400 gallons of wastewater per day into the sewer collection facilities. These Guidelines will be used to calculate the single-family equivalency rating regardless of whether or not actual flows may be less. In this rate schedule the Guidelines are being used solely for determination of the sewer service connection and plant impact fee charges, not design purposes.